

**COTTONWOOD HEIGHTS (A CITY), UTAH
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**



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COTTONWOOD HEIGHTS, UTAH
YEAR ENDED JUNE 30, 2008

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 16, 2008

Honorable Mayor
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights (the City), as of and for the period ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The City is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we express no such opinion.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights, as of June 30, 2008, and the respective changes in financial position, where applicable, and the budgetary comparison for the general fund thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

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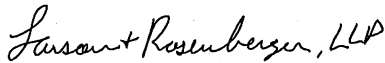
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The Management's Discussion and Analysis on pages 3 through 14 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Supplementary information that is not a required part of the basic financial statements is found on pages 44 through 46. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Larson & Rosenberger, LLP
Certified Public Accountants

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

As management of Cottonwood Heights (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. It is also intended to assist the reader in focusing on significant financial issues. These include identifying changes in the City's financial position (its ability to address the next and subsequent year's challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets of Cottonwood Heights are \$56,068,763.
- Total net assets consist of: \$45,776,089 in capital assets net of related debt, Reserved Accounts - \$223,950 in Class "C" Road Funds and Unreserved Accounts - \$10,068,724.
- The City's fund balances as shown on the Governmental Funds statement includes \$1,435,709 in General Funds (Reserved Funds - \$223,950 in Class "C" Road Funds and Unreserved Funds - \$1,211,759) and additionally \$8,856,965 unreserved in Capital Project Funds.
- The General Fund (the primary operating fund) had a slight decrease over the prior year in its fund balance of \$53,698 (\$29,605 less in Class "C" Road funds, \$24,093 less in Unreserved General Fund). The Capital Projects Fund had an increase in its fund balance of \$3,077,941, primarily from transfers from the General Fund and unspent budgeted projects.
- In fiscal year 2006, the City negotiated a very favorable extension on \$2.5 million in intergovernmental payables for law enforcement services utilized in the first eight months of the City's existence. These payables were scheduled to be paid in full by July 1, 2008. This debt was paid in full on June 30, 2008.
- The Proprietary Fund (Employee Benefit Fund) is an internal service fund that allows the Governmental Funds to be charged for employee paid time off (PTO) in the year the benefit is earned. Charges made by the internal service fund to the Governmental Funds will accumulate cash on hand to pay the employee vested PTO when it becomes payable at termination. Setting these funds in reserve to cover the future potential payout of vested PTO will ensure the City's ability to meet this future liability with minimal or no impact on future budgets.
- Cottonwood Heights was recognized by the Government Finance Officers Association for Distinguished Budget Presentation for the 2008 fiscal year beginning July 1, 2007.
- During the 2008 fiscal year the City staff expanded in order to improve and sustain city council goals:
 - A Geographical Information Systems (GIS) specialist was hired to, among other things, create and sustain a city GIS system to map City infrastructure. These services were services previously provided under contract with Gilson Engineering. The savings from this reduction in contracted services mostly offset the costs of hiring this specialist.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

- The City budgeted, for the first time, to self-provide ordinance enforcement which includes animal control in the 2008 fiscal year. These two staffing additions were offset by cost savings generated by terminating contract services with Salt Lake County.
- During the past year the City Council decided to start a police department on September 1, 2008 in lieu of contracting with the Salt Lake County Sheriff for law enforcement services. This required a budget adjustment of \$245,597 in the 2007-08 fiscal year budget for initial start-up costs. The the start-up costs in fiscal 2008 related to hiring a Chief of Police and an Assistant Chief as well as initial software, equipment and initial buildout of new office space needed to prepare for the significant process of starting a police department.
- A human resource generalist was hired in anticipation of the growth in employees attributable mostly to the new police department.
- On July 1, 2007 the City entered into a joint venture with Holladay City for justice court services. The Holladay court is located nearer to the City and will better serve the citizens of Cottonwood Heights. During 2007-08 the City continued to receive revenue from Salt Lake County Justice Courts for cases started prior to July 1, 2007.
- A significant update to the City's information systems was completed in the 2007-2008 budget year. This upgrade ensured continued functionality of the City's expanding need for information systems. The new system facilitates greater data reliability and complete backup of City data. It provides a stable platform for the development of a GIS system and a document imaging system. Additionally, this implementation has provided for a smooth implementation of Police services systems.
- Many street and sidewalk improvement projects have been completed in addition to the 2.26 million square feet of road improvement projects, including overlays, chip seals and slurries. The City expects to receive a FY 2008 commitment for over \$1.0 million in state funding for the Fort Union Boulevard level course re-construction in the 2008-09 fiscal year budget.
- The City has been successful in planning and obtaining partial funding in grants for the Big Cottonwood Canyon Trail and Old Mill Pond. This funding totals over \$1.2 million directly to the City and it is assured that Salt Lake County will contribute over \$3.0 million from their Open Space Fund in direct purchase of the land for the Prospector Ridge Trailhead project in early fiscal 2009.
- The City conducted its' first municipal elections since incorporation. There were no changes in the City Council, as Councilmen Thomas and Bracken ran unopposed.
- In FY 2007, Cottonwood Heights participated with other cities on the east side of the Jordan School District in the funding of a feasibility study to create a new school district. The purpose for the feasibility study was to determine the possibility of creating a new school district to more efficiently address the needs of citizens living within the participating cities. The public vote in November, 2007 resulted in the creation of the new school district that will serve the cities of Cottonwood Heights, Sandy, Draper, Midvale, the Town of Alta and the unincorporated islands within the new school district boundaries. In FY 2007 and 2008 the City's portion of expenditures were \$14,665 and \$33,815 respectively. These expenditures are expected to be reimbursed by the new school district. The new Canyons School

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

District board has been elected and leadership hired to plan and prepare for its July 1, 2009 start date.

- The City has continued to promote successful community events enjoyed by residents of the City, including Butlerville Days, Easter Egg Hunt, Relay for Life, District Town Meetings, Election forums, and various events in conjunction with the Cottonwood Heights Recreation Center.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cottonwood Heights' basic financial statements which consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) supplementary information.

Government-wide financial statements (defined)

The government-wide financial statements are designed to provide readers with a broad overview of Cottonwood Heights' finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Cottonwood Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cottonwood Heights is improving or deteriorating. However, the reader will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Cottonwood Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions (business-type activities) that are intended to recover all or a significant portion of their costs through user fees and charges. ***Cottonwood Heights currently has no Business-type Activities.***

Fund financial statements (defined)

A statement of revenue, expenditures and changes in fund balance by fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cottonwood Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of a city are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Cottonwood Heights currently has two major governmental funds (as determined by generally accepted accounting principles), the General Fund and the Capital Projects Fund and one

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

proprietary fund, Employee Benefit Fund (an internal service fund). *Cottonwood Heights currently has no Fiduciary Funds.*

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for future appropriation. These funds are reported using a modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- **Proprietary funds** – Cottonwood Heights maintains one proprietary fund, the Employee Benefit Fund (an internal service fund). This fund is an accounting device used to accumulate and allocate costs primarily for accrued paid time off (PTO) among the City's various functions. This fund provides the resources needed to pay out accrued vested PTO benefits without negatively impacting budgets in the year a payout occurs. Because this service predominantly benefits governmental rather than business-type functions, this fund has been included within the governmental activities in the government-wide financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-42 of this report.

CITY'S GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cottonwood Heights, assets exceed liabilities by \$56,068,763 at the close of the most recent fiscal year. The City's government-wide financial statements can be found on pages 16-17 of this report.

Cottonwood Heights was incorporated on January 14, 2005 and completed a 4th fiscal year of activity on June 30, 2008. The last three years are the only 12 month periods with which to compare the current financial position and results of activities.

By far the largest portion of Cottonwood Heights' net assets, \$45,776,089, reflects investment in capital assets (e.g., land, roads and infrastructure assets) net of related debt. The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. **Currently, the City has no general obligation debt.**

A **prior period adjustment** has been calculated on recently identified roads that should have been included in the fiscal year 2005 initial transfer of infrastructure assets from Salt Lake County. This resulted in \$1,313,506 in additional infrastructure land and \$1,326,612 in gross additional infrastructure roads transferred from Salt Lake County. It was also estimated that the County's portion of depreciation on these recently identified roads was \$517,842. Additionally, the original FY 2005 calculation of depreciation allocated as depreciation belonging to Salt Lake County at the transfer date of January 15, 2005 was overstated. Correcting these errors increases the net book value transferred to Cottonwood Heights by \$1,032,266 in Roads and reduces Bridges by \$18,979.64. These fiscal year 2005 corrections have been included in the chart of capital assets as if they were reported correctly in all past years. Other minor adjustments in new assets and depreciation corrections from fiscal year 2007 are presented as miscellaneous adjustments. All Cottonwood Heights depreciation expense for the current year and any minor corrections are presented in the current additions column on page 38 in the Notes section.

An additional portion of the City's net assets, \$223,950, represents resources that are subject to external restrictions on how they may be used. Currently this restriction is only on unexpended Class C road funds. The remaining balance of unrestricted net assets, \$10,068,724, may be used to meet the city's ongoing obligations to citizens and creditors by fund type. More than 85 percent of this is reflected in the fund balance of the Capital Projects Fund.

**Cottonwood Heights
Net Assets
As of June 30th**

	Governmental Activities			
	2008	2007	2006	2005 (1/2 year)
Current and other assets	12,125,491	11,592,480	7,925,989	3,137,814
Capital assets	45,776,089	45,037,315 *	45,516,630 *	47,482,254 *
Total assets	57,901,580	56,629,795	53,442,618	50,620,068
Long-term liabilities outstanding	46,769	2,280,164	2,410,976	31,500
Other liabilities	1,786,048	2,053,933	708,547	2,362,166
Total liabilities	1,832,817	4,334,097	3,119,523	2,393,666
Net assets:				
Invested in capital assets, net of related debt	45,776,089	45,027,267 *	45,496,011 *	47,450,754 *
Restricted	223,950	253,555	183,275	171,627
Unrestricted	10,068,724	7,014,876	4,643,809	604,021
Total net assets	56,068,763	52,295,698	50,323,095	48,226,402

*** See Prior Period Correction paragraph above.**

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Governmental activities analysis

Governmental activities increased the City's net assets by \$3,773,065 resulting in total net assets of \$56,068,763.

Significant current year revenues were from:

- \$6,980,872 Property Tax revenues (42.0%),
- \$5,689,750 Other Taxes (Local option Sales taxes, Franchise tax, Liquor tax) (34.2%),
- \$1,475,184 Operational Grants (Class C road funds, E911 Emergency telephone fee and CDBG funds) (8.9%)
- \$1,008,286 Charges for Service (Licenses, Permits and Court fines) (6.1%).
- \$941,105 Capital Grants for trail and parks improvements and additional Impact Fees (5.7%)
- \$515,432 Investment interest earnings (3.1%)

See also supplementary Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures on pages 45-46.

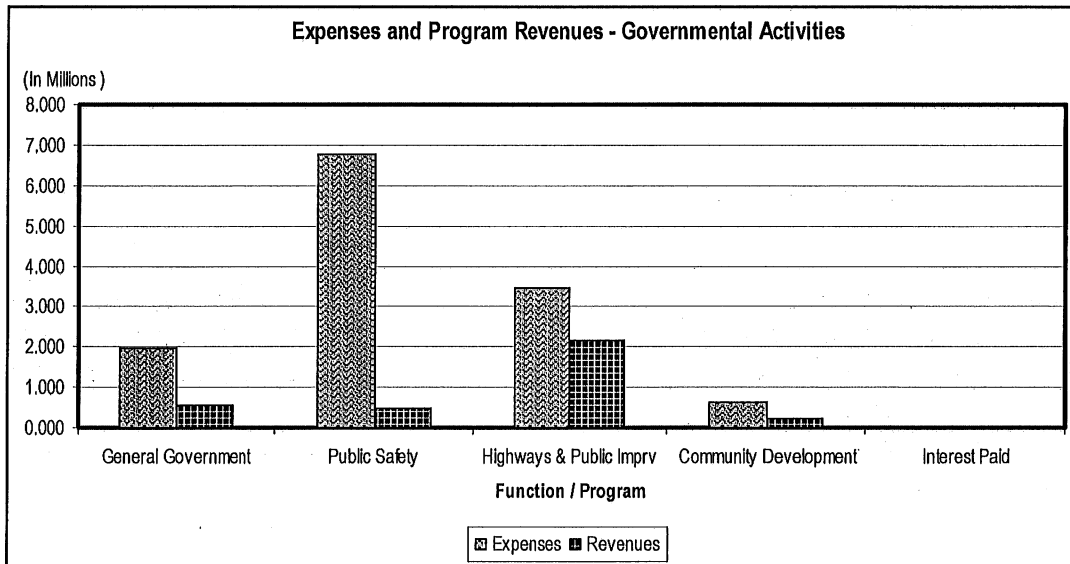
**Cottonwood Heights
Changes in Net Assets**

	Governmental Activities			
	FY 2008	FY 2007	FY 2006	FY 2005 (1/2 yr)
Revenues:				
Program revenues:				
Charges for services	1,008,286	933,977	962,497	273,390
Operating grants and contributions	1,475,184	1,362,266	1,289,841	627,685
Capital grants and contributions	941,105	33,579	2,532,080	4,661
Total program revenues	<u>3,424,575</u>	<u>2,329,822</u>	<u>4,784,418</u>	<u>905,736</u>
General revenues:				
Property taxes	6,980,872	6,935,453	2,858,039	874,799
Other taxes	5,689,750	5,812,178	4,958,764	2,087,086
Unrestricted investment earnings	515,432	456,134	233,637	8,131
Other - Intergovernmental	1,500	6,248	500,000	48,379,116
Other - Gain (Loss) on Sale of Assets	(736)	-	-	-
Other - Miscellaneous	4,589	7,503	405	694
Total general revenues	<u>13,191,407</u>	<u>13,217,517</u>	<u>8,550,846</u>	<u>51,349,826</u>
Total revenues	<u>16,615,982</u>	<u>15,547,339</u>	<u>13,335,264</u>	<u>52,255,562</u>
Expenses:				
General government	1,972,270	3,421,036	1,328,701	669,212
Public safety	6,780,298	6,339,016	5,730,383	1,763,029
Highways and public improvements	3,469,794	3,197,851	3,309,743	1,377,478
Community & economic development	620,300	616,335	821,760	212,593
Interest on long-term debt	254	498	47,805	7,028
Total expenses	<u>12,842,916</u>	<u>13,574,736</u>	<u>11,238,391</u>	<u>4,029,340</u>
Change in net assets	<u>3,773,066</u>	<u>1,972,603</u>	<u>2,096,873</u>	<u>48,226,222 *</u>
Net assets - beginning	<u>52,295,698 *</u>	<u>50,323,095 *</u>	<u>48,226,222 *</u>	<u>-</u>
Net assets - ending	<u>56,068,763</u>	<u>52,295,698</u>	<u>50,323,095</u>	<u>48,226,222</u>

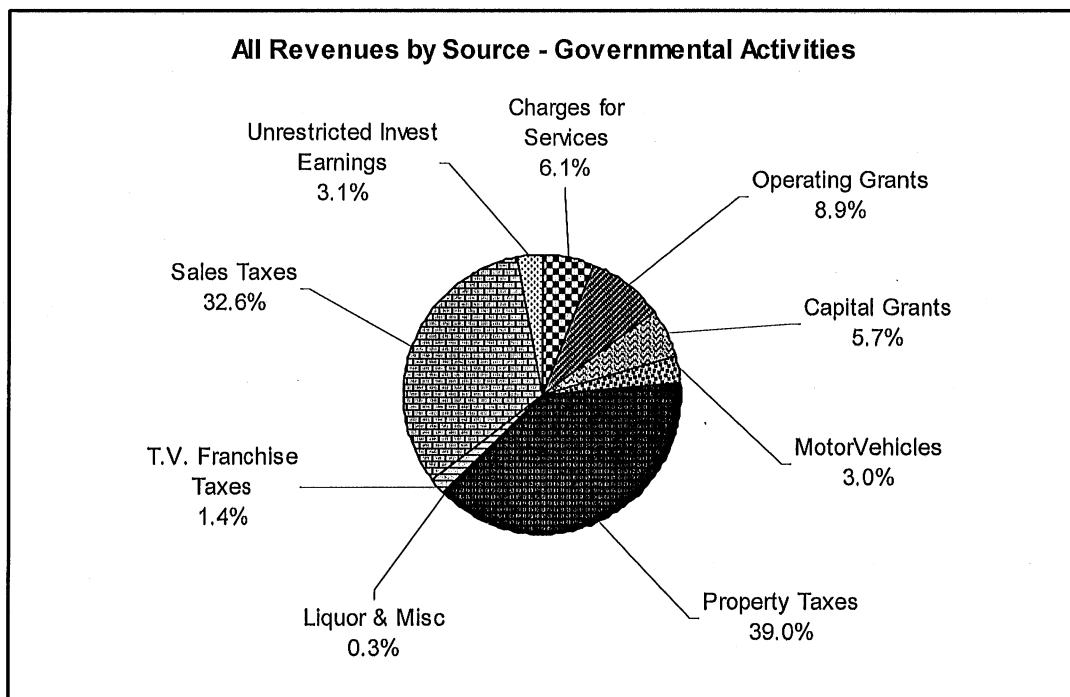
** See Prior Period Correction paragraph in previous section.*

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

The following is a graphic presentation of the City's program revenues and corresponding expenditures. It should be noted that approximately 69 percent of the expenses shown for Highways & Public Improvements is attributable to current period depreciation of the City's infrastructure assets. The revenue for Highway & Public Improvements is primarily from Class C Road Funds. The General Government revenue is from charges for services (business licensing and permits & inspections). Public Safety revenues include \$200,696 of E-911 Emergency telephone fees and \$235,611 normal court fines.



Below is a graphic of all revenue sources collected by the City during the fiscal 2008 year.



**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

CITY'S FUND FINANCIAL STATEMENTS ANALYSIS

As noted earlier, Cottonwood Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Analysis

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for appropriation at the end of the fiscal year.

At the end of this fiscal year, Cottonwood Heights' governmental funds reported combined ending fund balances of \$10,292,674 after forty one and one-half months of operation. Approximately 97.8 percent, or \$10,068,724, of this total constitutes *unreserved, undesignated fund balance*, which is available for spending at the City Council's discretion. (\$8,856,965 of this balance is in the Capital Projects fund and is budgeted to be spent on capital projects.) The remaining \$223,950 of fund balance is *reserved or designated* to indicate that it is only available for spending on the designated purpose for which the funds are committed (Class C roads).

- The **General Fund** is the chief operating fund of the City. As of June 30, 2008 the General Fund's unreserved fund balance was \$1,211,760, while the total fund balance equaled \$1,435,709. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year. The unreserved fund balance was 7.8 percent of total expenditures and transfers, while the total fund balance equaled 9.3 percent. The fund balance decreased from the end of FY 2007 by \$53,698 (\$29,605 less in Class "C" Road funds, \$24,093 less in Unreserved General Fund) after a transfer of \$4,107,170 to the Capital Projects Fund. The current unreserved fund balance is 7.85 percent of the total estimated fund revenues for the 2008-2009 fiscal year. The stated goal of the City Council is to keep a minimum fund balance of at least 6 percent required. Currently, this 6 percent required minimum has been calculated at \$936,166.
- The other governmental fund is the **Capital Projects Fund**. This fund is specifically used to budget capital improvements. As of June 30, 2008, the fund had an unreserved available fund balance of \$8,856,965. This was an increase of \$3,077,941 from the prior year-end which is primarily due to the transfer from the General Fund and a reduction in the originally budgeted expenditures. See supplementary Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund on page 44.

The City's basic governmental funds financial statements can be found on pages 18-22 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Proprietary Funds Analysis

The focus of the City's only proprietary fund, **Employee Benefit Fund (an internal service fund)**, is to accumulate funds to pay the City's PTO liability each year to minimize or altogether eliminate any budgetary impact in a subsequent year when a payout is required. At the end of each fiscal year, a liability estimate is made based on individual accruals and current wage rate of each employee. The total liability is then compared with the current liability balance in the Employee Benefit Fund (an internal service fund) and any additional liability is charged to the current year's expenditures in the governmental funds.

The City's basic proprietary fund financial statements can be found on pages 23-25 of this report.

GENERAL FUND 2008 BUDGETARY HIGHLIGHTS

During the year there was an overall increase of \$454,242 in budgeted appropriations for the General Fund. Overall departmental budgets increased for budgeted expenditures by \$652,739 requiring a decrease in the budgeted transfer to Capital Projects of \$198,497.

Although overall budgeted revenues decreased \$83,470, the final FY2007 fund balances increased in Class C Roads for \$238,026 and unrestricted funds for \$299,686 providing the necessary funding to keep the budget in balance.

Differences between the original and final amended budgets resulted in a total increase in appropriations of \$454,242. The changes by department are:

- \$216,090 increase in General Government
- \$322,627 increase in Public Safety
- \$181,126 increase in Highways and Public Improvements
- \$ 67,104 decrease in Community and Economic Development
- \$ 0 no change in Debt Service
- \$198,497 decrease in transfers to Capital Projects Fund

Actual expenditures during this fiscal year in the General Fund departments were equal to or less than the amended budget appropriations in General Government, Public Safety, Highways and Public Improvements, and Debt Service.

The Community and Economic Development department exceeded the budgeted amount by \$20,607 equal to 3.36 percent of budget. This primarily occurred due to an error in calculating the year-end budget adjustments that reduced the Community and Economic Development budget more than \$67,000 that if left unadjusted the overspend would have been avoided.

The City's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund can be found on page 22 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

Cottonwood Heights' investment in capital assets for its governmental activities as of June 30, 2008 amounted to \$45,776,089 (net of accumulated depreciation). This investment in capital assets includes land right-of-way, roads, bridges, parkways (improvements other than buildings), storm drains, land (not road right-of-ways), buildings, equipment and vehicles.

Cottonwood Heights' Capital Assets
(net of depreciation)

	Governmental Activities	
	<u>FY 2008</u>	<u>FY 2007</u>
Equipment	\$ 646,360	\$ 197,128
Vehicles	134,656	84,781
Buildings	-	-
Land (non-infrastructure)	530,492	524,892
Infrastructure - Roads	18,976,481	20,022,078
Infrastructure - Bridges	744,160	776,474
Infrastructure - Parkway	1,507,910	274,309
Infrastructure - Storm Drains	549,430	471,052
Infrastructure - Land	22,686,600	22,686,600
Total	<u>\$ 45,776,089</u>	<u>\$ 45,037,315</u>

Capital asset additions during this fiscal year included the following for a total increase and other adjustments of \$3,407,241 in assets:

- \$ 534,738 in new equipment asset purchases.
This amount includes office build out, computer & software purchases, other general equipment.
- \$ 102,714 in vehicle purchases for ordinance enforcement, public works trailers and a couple of spare pool vehicles for general use.
- \$ (38,195) reduction for two police motorcycles having been surplusd.
- \$ 5,600 in water shares purchased for future buildings.
- \$ 850,714 in FY08 infrastructure from road overlay and chip seal projects.
- \$ 585,211 in FY07 corrections of infrastructure overlay and chip seal projects.
- \$1,214,077 in FY08 parkway beautification and improvements.
This amount includes crosswalks, cross-gutters, street lighting initial work on Big Cottonwood Trail, and bonded development.
- \$ 62,419 in FY07 corrections in parkway improvements.
- \$ 89,963 in storm drains improvements.

Additional information on assets of the City can be found in the Notes 3D Capital Assets on page 38-39 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Long-term debt

As of June 30, 2008 the City had \$46,768.96 in governmental long-term debt. None of this debt is considered to be general obligation debt. The entire amount is a long-term liability in the Employee Benefit Fund (an internal service fund) for employee paid time off accruals and is fully funded through cash on hand in the fund.

The City will not have a debt service payment in FY 2009. The next possible debt service payment will occur in September, 2009 with the first payment on the capital lease to purchase police vehicles.

Additional information on the outstanding debt obligations of the City can be found in the Notes 3.F. Long-Term Debt on pages 39-40 of this report.

Intergovernmental Payable

The City has no intergovernmental accounts payable. The City recently paid the Sheriffs' contract payments that were deferred until July 1, 2008. All payments were completed on schedule and as planned without interest charges being imposed per the terms of the agreement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATE

- Cottonwood Heights' adopted property tax rate for the 2008-09 budget year resulted in a rate of .002098. The locally assessed valuation in Cottonwood Heights is estimated at \$3,055,630,123, with insignificant new growth. The adopted tax rate should yield approximately \$6,410,000 in property tax revenue.
- Sales taxes in the State of Utah have weakened and could affect the City's budget, but as of the date of this report, Sales tax collections for the City are only slightly behind the previous year. The budgeted amount of Sales taxes for fiscal year 2009 is \$5,200,000.
- Class C Road Funds have been somewhat unpredictable due to the rise in gasoline costs during the year. Currently with the recent decline of gasoline prices, the gallon usage may increase, which would directly affect the City's portion of funds.
- The 2008-09 budget has been constructed with a focus on efficient and effective use of the limited resources available. No new taxes have been proposed to fund City operations and General Fund revenues are projected to remain flat with no appreciable increases. A capital lease will be entered into to help fund the purchase of police vehicles in fiscal year 2009. There are no currently anticipated changes to the service areas or boundaries of the City which would impact either revenues or expenditures.
- The most significant new budget item is the start-up of the Cottonwood Heights Police department (CHPD). This is a change in support of the City's number one goal of enhancing public safety. This brings an additional 38.67 FTE's (full time equivalent employees) and an additional 15 part-time crossing guards which will significantly increase payroll processing activities and leased space requirements.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

The City Council is committed to keeping the cost of CHPD within the parameters of the feasibility study upon which their decision was made.

- Capital improvements were originally budgeted at \$9,884,961 in the 2008-09 fiscal budget. This was based on unspent prior year funding of \$6,935,993 as known at budget adoption:
 - Projects are defined by the Capital Facilities Plan.
 - As of this report, the ending fund balance from the prior year is \$8,856,965 providing an additional \$2,317,000 to be budgeted.
 - In FY 2008, \$2,284,752 was to be funded by State and Local grants to facilitate improvements of the Old Mill Pond and the development of the Big Cottonwood Canyon Trail. Of that \$2,284,752, a total of \$910,000 was funded in fiscal year 2008 and much of this has been carried over into fiscal year 2009. The balance is available for reimbursement of Cottonwood Heights as expenditures are made.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood Heights' finances. Questions concerning any information provided in this report or a request for additional financial information should be addressed to: Cottonwood Heights, attn: David Muir, Finance Director, 1265 Fort Union Blvd, #250, Cottonwood Heights, UT 84047.

BASIC FINANCIAL STATEMENTS

Cottonwood Heights, Utah

Statement of Net Assets

June 30, 2008

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$10,645,180
Receivables (net of allowances)	1,252,011
Prepays	4,350
Restricted Cash and cash equivalents	223,950
Capital assets not being depreciated:	
Land	23,217,092
Capital assets (net of accumulated depreciation):	
Improvements other than buildings	646,160
Vehicles	134,856
Infrastructure	21,777,981
Total assets	57,901,580
LIABILITIES	
Accounts payable and other current liabilities	1,122,499
Accrued liabilities	85,312
Deferred revenue	578,238
Non-current liabilities:	
Due in more than one year	46,769
Total liabilities	1,832,817
NET ASSETS	
Invested in capital assets, net of related debt	45,776,089
Restricted for:	
Class C Roads	223,950
Unrestricted	10,068,724
Total net assets	\$56,068,763

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Activities
For the Year Ended June 30, 2008

Function / Programs	Program Revenues				Net (Expenses)	
	Revenues and Changes in Net Assets			Primary Governmental Activities	Total	Primary Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government	\$ 1,972,270	\$ 558,751	\$ -	\$ -	\$ (1,413,519)	
Public safety	6,780,298	235,611	265,696		(6,278,991)	
Highways and public improvements	3,469,794		1,209,488	941,105	(1,319,201)	
Community and economic development	620,300	213,924			(406,376)	
Interest on long-term debt	254				(254)	
Total governmental activities	\$ 12,842,916	\$ 1,008,286	\$ 1,475,184	\$ 941,105	\$ (9,418,341)	

General revenues:

Property Tax	6,475,442
Sales Tax	5,414,341
Motor Vehicle Fee-In-Lieu	505,430
Franchise Tax	235,671
State Liquor Fund Allotment	39,738
Grants and contributions not restricted to specific programs	1,500
Unrestricted investment earnings	515,432
Gain on Sale of Capital Assets (Loss)	(736)
Miscellaneous	4,589
Total general revenue and transfers	13,191,406
Changes in net assets	
Total net assets - beginning	3,773,065
Prior Period Adjustment *	49,160,137
Total net assets - ending	3,135,561
	\$ 56,068,763

The notes to the financial statements are an integral part of this statement.

* See Note 3D Capital Assets for Prior Period FY 2005 Adjustment discussion.

Cottonwood Heights, Utah

Balance Sheet Governmental Funds June 30, 2008

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,741,446	\$ 8,856,965	\$ 10,598,411
Accounts receivables (net):	1,252,011		1,252,011
Prepaid Expenses	4,350		4,350
Restricted Cash and cash equivalents	223,950		223,950
Total assets	\$ 3,221,757	\$ 8,856,965	\$ 12,078,722
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,122,499	\$ -	\$ 1,122,499
Accrued liabilities	9,616		9,616
Advances from Developers	75,697		75,697
Deferred revenue	578,238		578,238
Total liabilities	1,786,048		1,786,048
Fund balances:			
Reserved:			
Class C roads	223,950		223,950
Unreserved, reported in:			
General Fund, required	936,166		936,166
Fund balance, available	275,593	8,856,965	9,132,558
Total fund balances	1,435,709	8,856,965	10,292,674
Total liabilities and fund balances	\$ 3,221,757	\$ 8,856,965	\$ 12,078,722

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2008

Total fund balances - governmental fund types:	\$ 10,292,674
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the funds.	45,776,089
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Net assets of governmental activities	<u>\$ 56,068,763</u>
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The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 6,475,442	\$ -	\$ 6,475,442
Sales	5,378,470		5,378,470
E-911 Emergency Fees	200,696		200,696
Motor Vehicle Fee-in-lieu	505,430		505,430
Franchise - Cable TV	235,671		235,671
Transient Room	35,871		35,871
Licenses and permits	558,751		558,751
Intergovernmental:			
Federal Grant	65,000		65,000
State Grants		375,000	375,000
State Class C Roads	1,209,488		1,209,488
State Liquor Fund Allotment	39,738		39,738
Local Grants	1,500	534,751	536,251
Charges for services	213,924		213,924
Fines and forfeitures	235,611		235,611
Investment earnings	239,230	276,202	515,432
Miscellaneous	4,589		4,589
Total revenues	15,399,411	1,185,953	16,585,364
EXPENDITURES			
Current:			
General Government	2,187,638		2,187,638
Public Safety	7,027,540		7,027,540
Highways and Public Improvements	1,496,248	2,215,182	3,711,430
Community and Economic Development	635,364		635,364
Debt Service:			
Principal	10,048		10,048
Interest	254		254
Intergovernmental:			
Cottonwood Heights Parks - R.E. Field	20,200		20,200
Total expenditures	11,377,293	2,215,182	13,592,475
Excess (deficiency) of revenues over (under) expenditures	4,022,118	(1,029,229)	2,992,889
OTHER FINANCING SOURCES (USES)			
Sources:			
General Fund Beg Fund Bal Appropriated		5,779,023	5,779,023
Reserved Class C Roads Beg Fund Bal	253,555		253,555
Impact Fees - Current Year Collections	31,354		31,354
Transfers from General Fund		4,107,170	4,107,170
(Uses):			
Transfers to Capital Improvement Fund	(4,107,170)		(4,107,170)
Total Other Financing Sources (Uses)	(3,822,261)	9,886,193	6,063,932
Net change in Fund Balances	199,857	8,856,965	9,056,821
Fund Balance - Beginning	1,235,853		1,235,853
Fund Balance - Ending	\$ 1,435,709	\$ 8,856,965	\$ 10,292,674

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different

Net changes in fund balances - total governmental funds	\$ 3,024,243
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Governmental funds report capital outlays as expenditures. However, in the	738,774
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Repayments of capital lease principal are expenditures in the governmental fund,
but reduce liabilities in the statement of net assets:

Principal payments on capital leases	<u>10,048</u>
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Change in net assets of governmental activities	<u><u>\$ 3,773,065</u></u>
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The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2008

	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Taxes:				
Property	\$ 6,400,000	\$ 6,625,000	\$ 6,475,442	\$ (149,558)
Sales	5,457,916	5,200,000	5,378,470	178,470
E-911 Emergency Fees	120,000	205,590	200,696	(4,894)
Motor Vehicle Fee-in-lieu	500,000	514,000	505,430	(8,570)
Franchise - Cable TV	195,000	233,013	235,671	2,658
Transient Room	25,000	25,000	35,871	10,871
Licenses and permits	745,084	603,000	558,751	(44,249)
Intergovernmental:				
Federal Grant	65,000	130,000	65,000	(65,000)
Homeland Security Grant		12,431		(12,431)
State Class C Roads	1,258,971	1,258,971	1,209,488	(49,483)
State Liquor Fund Allotment	30,000	39,738	39,738	(0)
Local Grants		900	1,500	600
Charges for services	118,000	101,200	213,924	112,724
Fines and forfeitures	282,790	195,448	235,611	40,163
Investment earnings	250,000	220,000	239,230	19,230
Miscellaneous			4,589	4,589
Total revenues	15,447,761	15,364,291	15,399,411	35,120
EXPENDITURES				
Current:				
General Government	2,079,935	2,296,025	2,187,638	(108,387)
Public Safety	6,801,806	7,124,433	7,027,540	(96,893)
Highways and Public Improvements	1,604,220	1,785,346	1,496,248	(289,098)
Community and Economic Development	679,861	612,757	635,364	22,607
Debt Service:				
Principal	10,048	10,048	10,048	0
Interest	254	254	254	
Intergovernmental:				
Cottonwood Heights Parks - R.E. Field	21,500	21,500	20,200	(1,300)
SL County Parks - Golden Hills	50,000	50,000		(50,000)
Total expenditures	11,247,624	11,900,363	11,377,293	(523,070)
Excess (deficiency) of revenues over (under) expenditures	4,200,137	3,463,928	4,022,118	558,190
OTHER FINANCING SOURCES (USES)				
Sources:				
General Fund Beg Fund Bal Appropriated		299,686		(299,686)
Reserved Class C Roads Beg Fund Bal Appropriated	15,529	253,555	253,555	
Impact Fees - Current Year Collections	90,000	90,000	31,354	(58,646)
(Uses):				
Transfers to Capital Improvement Fund	(4,305,666)	(4,107,169)	(4,107,170)	(1)
Total Other Financing Sources (Uses)	(4,200,137)	(3,463,928)	(3,822,261)	(358,333)
Net change in Fund Balances	(0)	(0)	199,857	199,857
Fund Balance - Beginning	588,746	1,235,853	1,235,853	(0)
Fund Balance - Ending	\$ 588,746	\$ 1,235,853	\$ 1,435,709	\$ 199,857

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	Governmental Activities - Employee Benefit Fund
ASSETS	
Cash and cash equivalents	\$ 46,769
Total assets	<u>46,769</u>
LIABILITIES	
Non-current liabilities	
Accrued PTO benefits payable	46,769
Total liabilities	<u>46,769</u>
NET ASSETS	
Unrestricted	0
Total net assets	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	Governmental Activities - Employee Benefit Fund
OPERATING REVENUES	
Charges for interfund services provided	\$ 21,002
Total operating revenues	<u>21,002</u>
OPERATING EXPENSES	
General Government - employee PTO benefits	<u>22,122</u>
Total operating expenses	<u>22,122</u>
Operating income	(1,120)
NON-OPERATING REVENUES	
Investment Earnings	<u>1,120</u>
Total non-operating revenues	<u>1,120</u>
Change in net assets	<u>0</u>
Total net assets - beginning	<u>0</u>
Total net assets - ending	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2008

	Governmental Activities - Employee Benefit Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 21,002
Net cash provided by operating activities	<u>21,002</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>1,120</u>
Net cash provided by investing activities	<u>1,120</u>
Net increase in cash and cash equivalents	22,122
Cash and cash equivalents July 1, 2006	<u>26,341</u>
Cash and cash equivalents June 30, 2007	<u><u>\$ 48,463</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating Income	(1,120)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in accrued PTO benefits payable	22,122
Net cash provided by operating activities	<u><u>\$ 21,002</u></u>

The notes to the financial statements are an integral part of this statement.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cottonwood Heights city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the more significant accounting policies for the City are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Cottonwood Heights (the City), incorporated in 2005, is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of four council members. The financial statements of the City may include those of separately administered organizations that are controlled by or are dependent upon the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Cottonwood Heights, Utah, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	Cottonwood Heights
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

Government-wide Statement of Net Assets and Statement of Activities display information on all non-fiduciary activities of the reporting government as a whole. Most effects of any inter-fund activities have been eliminated from these statements.

The government-wide statements for the primary government are separated based on the predominance of the type of revenues that support them. Governmental activities are normally supported by taxes and intergovernmental revenues, while business type activities would receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenditures of the function. Direct expenses are those that can clearly be associated with a particular activity or program. Program revenues include: (1) charges to customers or privileges provided by a given function and (2) grants and contributions that are

restricted to meeting operational or capital requirements of a particular function. Other revenue sources that are not reported as program revenues are reported instead as general revenues.

Fund Financial Statements:

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All funds of Cottonwood Heights are considered to be major funds.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets.

Proprietary Funds:

Employee Benefit Fund (an internal service fund)

This fund is used to account for liabilities created from accrued paid time off (PTO) of each City employee. Each year a calculation is made to determine the vested payouts that could occur in future years. This amount is charged to the current year in order to eliminate any large unforeseen payout that could disrupt the individual departmental budgets in subsequent years when a payout occurs.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide Statement of Net Assets and the Statement of Activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. The City employee benefit fund (an internal service fund) is reported on this basis.
- c. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Fiduciary funds at this time.

Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City includes in available revenue only revenue that will be collected in cash within one year following the close of the fiscal year, and in the case of property tax revenue, only revenue that will be collected within 60 days of the close of the fiscal year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND NET ASSETS (EQUITY)

Deposits and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (non-current portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end. The City has no interfund receivables or payables.

Receivables and Payables

In the government-wide statements and the fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales tax, franchise tax, property tax, court fines and road cut permits. Interest and investment earnings are recorded when earned and considered both measurable and available.

Payables are composed of contract payments for public works, permitting and inspections, engineering and the city attorney.

Capital Assets

The accounting treatment for property, plant, and equipment depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements assets are accounted for as capital assets. All assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the infrastructure assets transferred from Salt Lake County during the period ending June 30, 2005. The City has chosen to capitalize assets costing \$10,000 or more.

Depreciation of all exhaustible assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	45 years
Machinery and Equipment	5 to 15 years
Vehicles	5 years
Infrastructure – original costs	15-50 years
- annual upgrade costs	(min. 33% increased life extension)

Fund Financial Statements

In the fund financial statements, assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of State Law. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork. The City may also have certain impact fees that are restricted from time to time.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as a liability in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused PTO benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. There is no recorded liability for compensated absences in the governmental funds because the Employee Benefit Fund (an internal service fund) has been paid for the incurred compensated absence expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets net of accumulated depreciation. The City currently has no related debt.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated (required) and undesignated (available). See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenue

Property taxes, franchise taxes, licenses, shared revenue, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures/Expenses

In the government-wide financial statements, expenditures are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

- Current (further classified by function)
- Debt Service
- Capital Outlay
- Intergovernmental

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual obligations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of funds separate from the General Fund. The legally required separate funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
None	

2.B. CASH DEPOSITS AND INVESTMENTS

Deposits and investments for Cottonwood Heights are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of Cottonwood Heights' exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, Cottonwood Heights' deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of Cottonwood Heights to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2008, Cottonwood Heights had no deposits that were uninsured, except for an amount that is swept from the City's Zions Bank checking account to a Zions Bank Grand Cayman Branch on a daily basis in order to earn interest on otherwise idle cash. The City normally runs payables on the 15th and 30th and payroll on the last day of the month. In addition, the City cut a check of over \$2,200,000 to Salt Lake County on June 30, 2008, so the month end balance was more than usual due to checks cut which had not cleared the bank. The balance in this uninsured account as of June 30, 2008 was \$987,198.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Utah Money Management Act.

Cottonwood Heights is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. A copy of the Public Treasurers Investment Fund is available for viewing on the Utah State Treasurer's website at <http://www.treasurer.state.ut.us>.

As of June 30, 2008, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
State of Utah PTIF	\$ 13,129,757	\$ 13,129,757	\$ -	\$ -	\$ -
Total	\$ 13,129,757	\$ 13,129,757	\$ -	\$ -	\$ -

Investment Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Cottonwood Heights manages its exposure to declines in fair value by investment only in the PTIF and by adhering to the Utah Money Management Act.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
B & C Road Funds	Eligible B & C Roads

For the period ended June 30, 2008, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS***General Obligation Debt***

No long-term general obligation debt shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for

debt in an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2008, the City had no outstanding general obligation debt.

Other Long-term Debt

Cities may incur indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2008, the City had no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

General Fund Balance Restrictions

Utah Code 10-6-116(4) requires that only the “fund balance in excess of 5 percent of total revenues of the general fund may be utilized for budget purposes.” The remaining 5 percent must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18 percent of the total estimated revenue of the general fund (10-6-116(2)). The City Council has set its’ own standard of maintaining a minimum 6 percent fund balance. Currently the City’s fund balance equals 7.85 percent of total revenues.

2.F. BUDGETARY BASIS OF ACCOUNTING

In the governmental fund statements the accounting basis and the budgetary basis are the same. The Statement (Schedule) of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual presented for the general fund and the capital projects fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with Utah State law. The operating budget includes proposed expenditures and proposed sources of financing for such expenditures. Prior to June 22nd a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Management can move budgeted amounts within a department or decrease appropriations. The City Council can increase appropriations after having a public hearing. During the year ended June 30, 2008 the City Council amended the original budget once.

The Community and Economic Development department expenditures exceeded the budget amount by \$20,607. This primarily occurred due to an error in calculating the year-end budget adjustments that reduced the Community and Economic Development budget more than \$67,000 that if left unadjusted the overspend would have been avoided.

Budgets for the Capital Projects Fund are also prepared using the modified accrual basis of accounting and are adopted on an annual basis. Project budgets for the Capital Projects fund are

prepared annually and are re-appropriated by Council action in the following year. State law also requires a budget comparison for all funds for which an annual budget is adopted.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detailed information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/ expenses.

3.A. CASH DEPOSITS AND INVESTMENTS

Below is a reconciliation of the year end balance invested in the PTIF's and other cash and investments presented in the statement of net assets.

Utah State Public Treasurers' Investment Fund balance	\$	13,129,757
Reconciliation to Government-wide Statement of Net Assets:		
Investments	\$	13,129,757
Cash on Hand		460
Deposits		(2,261,087)
Total	\$	<u>10,869,130</u>
Per Statement of Net Assets:		
Unrestricted Cash	\$	10,645,180
Restricted Cash		223,950
Total	\$	<u>10,869,130</u>

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2008, are as follows:

<u>Type of Restricted Asset</u>	<u>Cash/Time Deposits</u>
<i>Governmental Activities:</i>	
Class C Road Funds	\$ 223,950
Total	<u>\$ 223,950</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consist principally of fiscal year accruals of sales taxes, property taxes, court fines and road cuts permits receivable.

Receivables detail at June 30, 2008, is as follows:

	Governmental Activities
Delinquent Property Taxes Receivable	\$ 81,436
Accounts Receivable - Fiscal year accruals, ie: Sales Tax, etc	1,170,575
Allowance for Doubtful Accounts	-
Net Accounts Receivable	<u>\$ 1,252,011</u>

3.D. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2008, was as follows:

	Balance at * July 1, 2007	Additions	Disposals ** / Misc Adj	Balance at June 30, 2008
Governmental Activities:				
Equipment	\$ 236,695	\$ 534,738	\$ -	\$ 771,434
Vehicles	113,772	102,714	(38,195)	178,291
Buildings	-	-	-	-
Land (non-infrastructure)	524,892	5,600	-	530,492
Infrastructure - Roads *	25,136,254	850,714	585,211	26,572,179
Infrastructure - Bridges*	856,584	-	-	856,584
Infrastructure - Parkways	281,726	1,214,077	62,419	1,558,222
Infrastructure - Storm Drains	476,345	89,963	-	566,308
Land related Infrastructure*	22,686,600	-	-	22,686,600
Totals at historical cost	<u>50,312,869</u>	<u>2,797,805</u>	<u>609,435</u>	<u>53,720,109</u>
Less Accum. Depreciation				
Equipment	(39,567)	(85,506)	-	(125,073)
Vehicles	(28,991)	(26,103)	11,459	(43,635)
Buildings	-	-	-	-
Infrastructure - Roads	(5,114,176)	(2,481,522)	-	(7,595,698)
Infrastructure - Bridges	(80,110)	(32,313)	-	(112,424)
Infrastructure - Parkways	(7,417)	(42,895)	-	(50,312)
Infrastructure - Storm Drains	(5,293)	(11,585)	-	(16,878)
Total Accum. Depreciation	<u>(5,275,554)</u>	<u>(2,679,925)</u>	<u>11,459</u>	<u>(7,944,020)</u>
Governmental Activities capital assets, net	<u>\$ 45,037,315</u>	<u>\$ 117,880</u>	<u>\$ 620,894</u>	<u>\$ 45,776,089</u>

* A prior period adjustment has been calculated on recently identified roads that should have been included in the fiscal year 2005 initial transfer of infrastructure assets from Salt Lake County. This resulted in \$1,313,506 in additional infrastructure land and \$1,326,612 in gross additional infrastructure roads transferred from Salt Lake County. It was also estimated that the County's portion of depreciation on these recently identified roads was \$517,842. Additionally, the original FY 2005 calculation of depreciation allocated as depreciation belonging to Salt Lake County at the transfer date of January 15, 2005 was overstated. Correcting these errors increases the net book value transferred to Cottonwood Heights by \$1,032,266 in Roads and reduces Bridges by \$18,979.64. These fiscal year 2005 corrections have been included in the chart of capital assets as if they were reported correctly in all past years.

** Other adjustments from fiscal year 2007 are presented as miscellaneous adjustments. All Cottonwood Heights depreciation expense for the current year and any minor prior year corrections are presented in the current additions column.

Depreciation and Miscellaneous Adjustment expense was charged to governmental activities as follows:

Governmental Activities:

General Government	\$ 39,858
Public Safety	28,816
Highways & Public Improvements	2,590,041
Community Planning	9,752
Total depreciation expense	<u>\$ 2,668,467</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of contract payments for public works, permitting and inspections, engineering and the city attorney.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt consists of capital leases and accrued employee benefits to be repaid from governmental activities.

As of June 30, 2008, the City had no long-term debt payable from general fund resources.

As of June 30, 2008 the City had proprietary fund long-term debt payable as follows

Employee Benefit Fund (an Internal Service Fund):

Paid Time Off - Future PTO Liability	<u>\$ 46,769</u>
Total proprietary fund debt	<u>46,769</u>
Total governmental activity debt	<u><u>\$ 46,769</u></u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the period ended June 30, 2008:

Type of Debt	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital leases	\$ 10,048	\$ -	\$ (10,048)	\$ -
Employee Benefit Fund - PTO	26,341	22,122	(1,694)	46,769
Total Governmental Fund Debt	<u>\$ 36,972</u>	<u>\$ 22,122</u>	<u>\$ (11,742)</u>	<u>\$ 46,769</u>

Annual Debt Service Requirements

Cottonwood Heights, as of June 30, 2008, has no outstanding external debt.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 4,107,170	
Capital Projects Fund		\$ 4,107,107

3.H. FUND EQUITY

Restricted Fund Equity

	<u>Government Activities</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 45,776,089
Restricted for:	
Class "C" Roads	223,950
Unrestricted	<u>10,068,724</u>
Total Net Assets	<u>\$ 56,068,763</u>

NOTE 4. OTHER INFORMATION

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Pension Plans

The City contributes to the Local Governmental Noncontributory Retirement System and Public Safety Retirement System which are cost-sharing, multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The Systems does allow elected officials and a small percent of appointed officials to be exempt from participation in the Noncontributory System in lieu of other retirement options.

The City is required to contribute to the Local Government Noncontributory System 11.62 percent of annual salaries. The City is also required to contribute to the Public Safety Noncontributory System 25.49 percent of annual salaries. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Local Government Noncontributory System for the periods ending June 30, 2008, 2007 and 2006 were respectively \$73,337, \$57,861 and \$38,832. The City contributions to the Public Safety Noncontributory System for the period end June 20, 2008, 2007 and 2006 were respectively \$1,806, \$0.00 and \$0.00. (While the full 25.49 percent Public Safety portion was expensed in the payroll process, only a regular Noncontributory 11.62 percent was actually remitted to the System, the balance was held in a payable until the City was approved to join the Public Safety Noncontributory System.) The contributions were equal to the required contributions for this period.

The City has also elected to be exempt from the Federal Social Security System for all employees that participate in a qualifying retirement plan. In lieu of contributions to the Social Security System the City contributes to various deferred compensation plans explained below.

Deferred Compensation Plans

The assets held by these deferred plans are not available to the City or its general creditors.

401(k) Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 401(k) for City employees. The Utah State Retirement Board administers this Plan. Employees who have elected to be exempt from either Noncontributory System may elect to have their equivalent City contribution contributed into this plan.

Employer contributions that substitute for contributions to the Non-contributory pension for the periods ended June 30, 2008, 2007 and 2006 were \$27,113, \$15,816 and \$14,043 respectively.

Employer contributions that substitute for medical coverage for the periods ended June 30, 2008, 2007 and 2006 were \$15,405, \$5,916 and \$2,736. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage.

457 Plans

The City sponsors 457 Deferred Compensation Plans in accordance with Internal Revenue Code Section 457 for all City employees. These plans are administered both by the Utah State Retirement Board and the International City/County Management Association Retirement Corporation (ICMA-RC). The employees of City may also participate in the 457 deferred compensation plan through payroll deduction.

Utah State Retirement Systems 457 Plan

The amount of the employer contributions that substitute for contributions to the Noncontributory system for the periods ended June 30, 2008, 2007 and 2006 were respectively \$9,343, \$7,879 and \$7,319. As of January 1, 2008 all employer contributions that substitute for contributions to Noncontributory Systems must be contributed to the Systems 401k plan. Employer contributions that substitute for social security contributions for the periods ended June 30, 2008, 2007 and 2006 were \$19,404, \$15,838 and \$10,938.

International City/County Management Association 457 Plan

Employer contributions that substitute for medical coverage for the periods ended June 30, 2008, 2007 and 2006 were respectively \$710, \$13,636 and \$9,264. As of January 1, 2008 employer contributions in lieu of medical coverage must be contributed to the Utah State Retirement Systems 401k plan. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage. Additional employer contributions to this plan for the periods ended June 30, 2008, 2007 and 2006 in the amount of \$43,863, \$27,384 and \$23,960 respectively, constitute the equivalent of otherwise required social security contributions.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

SUPPLEMENTARY INFORMATION

Cottonwood Heights, Utah

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Capital Projects Fund For the Year Ended June 30, 2008

	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
State Grant	\$ 1,410,830	\$ 1,750,000	\$ 375,000	\$(1,375,000)
Local Grants	534,752	534,752	534,751	(1)
Investment earnings	200,000	275,000	276,202	1,202
Total revenues	2,145,582	2,559,752	1,185,953	(1,373,799)
EXPENDITURES				
Current:				
Highways and Public Improvements	12,147,408	5,509,952	2,215,182	(3,294,770)
Debt Service:				
Total expenditures	12,147,408	5,509,952	2,215,182	(3,294,770)
Excess (deficiency) of revenues over (under) expenditures	(10,001,826)	(2,950,200)	(1,029,229)	1,920,971
OTHER FINANCING SOURCES (USES)				
Sources/(Uses):				
Transfers from General Fund	4,305,666	4,107,170	4,107,170	-
Total Other Financing Sources (Uses)	4,305,666	4,107,170	4,107,170	-
Net change in Fund Balances	(5,696,160)	1,156,970	3,077,941	1,920,971
Fund Balance - Beginning	5,696,160	5,779,023	5,779,023	
Fund Balance - Ending	\$ -	\$ -	\$ 8,856,965	\$ 8,856,965

Cottonwood Heights, Utah
Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures
Storm Water Impact Fees
For Year Ended June 30, 2008

Fee Type	Date Received	Receipt#	Permit #	Permittee	Location of Permit	Impact Fee Collected	City Capital Project	Planned Date of Capital Project	Unspent Fees as of 6/30/07
Storm Water	7/2/2007	4405	07-0198	Gray Hawk Properties	7275 S Caladora Cv	\$ 1,489.88	South-East Ft Union Area	FY 2008	\$ -
Storm Water	7/2/2007	4406	07-0200	Gray Hawk Properties	7315 S Caladora Cv	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	7/3/2007	4412	07-0200	D&M Developemnt Sysc	7316 S Caladora Cv	642.19	South-East Ft Union Area	FY 2008	-
Storm Water	7/26/2007	4508	07-0117	Camco Construction	4052 E Canyon Estate Dr	1,489.88	South-East Ft Union Area	FY 2008	-
Storm Water	8/2/2007	4537	07-0226	Gray Hawk Properties	7010 S 1700 E	642.19	South-East Ft Union Area	FY 2008	-
Storm Water	8/6/2007	4562	07-0221	Streamline Constr.	7036 S Iron Blossom Ln	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	8/7/2007	4573	07-0171	Ron & Georgia Watkins	6819 Greenfield Way	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	8/16/2007	4628	07-0254	RMD Construction	1515 E 7200 S	642.19	South-East Ft Union Area	FY 2008	-
Storm Water	8/31/2007	4712	07-0227	Matt Dickey	1523 E 7200 S	642.19	South-East Ft Union Area	FY 2008	-
Storm Water	9/18/2007	4783	07-0339	Timberwolf Homes LC	6515 S 2365 E	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	9/19/2007	4784	07-0303	Greg Young	7020 S 1700 E	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	9/28/2007	4832	07-0197	Gray Hawk Construction	7225 S Caladora Cv	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	10/11/2007	4880	07-0385	GMC Inc.	3480 E Macintosh Cir	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	10/25/2007	4953	07-0304	Five Star Construction	3760 E Aerie Cove	1,489.88	South-East Ft Union Area	FY 2008	-
Storm Water	11/8/2007	5016	07-0289	Shaw Building Group	7895 S Royal Cove Ln	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	12/6/2007	5160	07-0472	The Theurer Co	1870 E Meadow Dr	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	12/10/2007	5178	07-0425	Sarah Beck	9102 S Despain Wy	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	12/21/2007	5382	07-0469	Bard Gibb	6983 S Hollow Ridge Dr	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	2/5/2008	5966	08-0013	Phillips Edison/Station West	2300 E 7000 S	642.19	South-East Ft Union Area	FY 2008	-
Storm Water	3/18/2008	6306	08-0063	Beckstrand & Asso.	6322 S 3000 E	1,926.57	South-East Ft Union Area	FY 2008	-
Storm Water	4/1/2008	6400	07-0068	Old Mill Builders	6712 S Hidden Mill Cove	1,053.19	South-East Ft Union Area	FY 2008	-
Storm Water	4/8/2008	6430	07-0401	Gray Hawk Construction	3480 E Macintosh Cir	1,489.88	South-East Ft Union Area	FY 2008	-
Storm Water	5/1/2008	6588	07-0068	Lake City Custom Homes	6712 S Hidden Mill Cove	1,489.88	South-East Ft Union Area	FY 2008	-
Available Storm Water Fees FY2008						\$ 25,225.20		FY 2008 Total	\$ -

*NOTE: Total Storm Water project costs \$89,963 in FY 2008.

Cottonwood Heights, Utah

Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures

Transportation Impact Fees For Year Ended June 30, 2008

Fee Type	Date Received	Receipt#	Permit #	Permittee	Location of Permit	Impact Fee Collected	City Capital Project	Planned Date of Capital Project	Unspent Fees as of 6/30/07
Transportation	7/2/2007	4405	07-0198	Gray Hawk Properties	7275 S Caladora Cv	\$ 242.84	Multi-Overlay, Chip Seals	FY 2008	\$ -
Transportation	7/2/2007	4406	07-0200	Gray Hawk Properties	7315 S Caladora Cv	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	7/3/2007	4412	07-0200	D&M Developemnt Svc	7316 S Caladora Cv	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/2/2007	4508	07-0117	Camco Construction	4052 E Canyon Estate Dr	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/2/2007	4537	07-0226	Gray Hawk Properties	7010 S 1700 E	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/6/2007	4562	07-0221	Streamline Constr.	7036 S Iron Blossom Ln	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/7/2007	4573	07-0171	Ron & Georgia Watkins	6819 Greenfield Way	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/16/2007	4628	07-0254	RMD Construction	1515 E 7200 S	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	8/31/2007	4712	07-0227	Matt Dickey	1523 E 7200 S	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	9/18/2007	4783	07-0339	Timberwolf Homes LC	6515 S 2365 E	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	9/19/2007	4784	07-0303	Greg Young	7020 S 1700 E	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	9/28/2007	4832	07-0197	Gray Hawk Construction	7225 S Caladora Cv	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	10/11/2007	4880	07-0385	GMC Inc.	3480 E Macintosh Cir	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	10/25/2007	4953	07-0304	Five Star Construction	3760 E Aerie Cove	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	11/8/2007	5016	07-0289	Shaw Building Group	7895 S Royal Cove Ln	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	12/6/2007	5160	07-0472	The Theurer Co	1870 E Meadow Dr	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	12/10/2007	5178	07-0425	Sarah Beck	9102 S Despain Wy	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	12/21/2007	5382	07-0469	Bard Gibb	6983 S Hollow Ridge Dr	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	2/5/2008	5966	08-0013	Phillips Edison/Station West	2300 E 7000 S	1,029.12	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	4/1/2008	6400	07-0068	Old Mill Builders	6712 S Hidden Mill Cove	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	4/8/2008	6430	07-0401	Gray Hawk Construction	3480 E Macintosh Cir	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Transportation	5/1/2008	6588	07-0068	Lake City Custom Homes	6712 S Hidden Mill Cove	242.84	Multi-Overlay, Chip Seals	FY 2008	-
Available Transportation Fees FY2008						\$ 6,128.76	Balance of Unexpended Funds		\$ -

*NOTE: The amount expended in fiscal year 2008 on Transportation Improvemnts exceeded \$850,000.

COTTONWOOD HEIGHTS (A CITY)

**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
INDEPENDENT AUDITORS' REPORT
ON LEGAL COMPLIANCE
MANAGEMENT LETTER**

JUNE 30, 2008

COTTONWOOD HEIGHTS, UTAH
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JUNE 30, 2008

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GOVERNMENT AUDITING STANDARDS REPORT



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 16, 2008

The Honorable Mayor and
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the accompanying basic financial statements of Cottonwood Heights, Utah (herein referred to as the "City"), as of and for the period ended June 30, 2008, and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in the management letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying management letter to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

This report is intended for the information of the Mayor and City Council, management, and various federal and state funding and auditing agencies and is and is not intended to be and should not be used by anyone other than these specified parties.



Larson & Rosenberger, LLP
Certified Public Accountants

STATE COMPLIANCE REPORT



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

December 16, 2008

The Honorable Mayor and
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the basic financial statements of Cottonwood Heights, Utah, as of and for the period ended June 30, 2008, and have issued our report thereon dated December 16, 2008. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2008. The City received the following major State assistance programs from the State of Utah:

B&C Road Funds (Department of Transportation)

Our audit also included test work on Cottonwood Heights' compliance with those general compliance requirements identified in the State of Utah Legal Compliance Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees and Other Development Fees
Asset Forfeiture

The management of the Cottonwood Heights, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the attached management letter dated December 16, 2008. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Cottonwood Heights, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or un-allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2008.

A handwritten signature in cursive script that reads "Larson & Rosenberger, LLP".

Larson & Rosenberger, LLP
Certified Public Accountants

MANAGEMENT LETTER



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2008

The Honorable Mayor and
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the financial statements of the governmental activities and the business-type activities, of Cottonwood Heights for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cottonwood Heights are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Audit Findings

The following sections discuss the audit findings, auditor recommendations, and the response of management to the recommendations.

Internal Control Findings – Current Year

Finding – Capital Assets and Prior Period Adjustment (Significant Deficiency):

Sufficient controls over capital assets should be designed such that prompt and accurate reporting of capital assets is ensured. We noted during our scheduled audit fieldwork that capital asset schedules were not yet completed, which was a result of City staff determining material restatements of net acquisition value (or net book value) of transferred assets from Salt Lake County and estimated value of several historic roads that should have been included in the original transfer from Salt Lake County, but were not identified by Salt Lake County during the start-up of the new City.

Recommendation:

We recommend that the client implement and follow a system of controls that will help to ensure timely and accurate reporting of capital assets. As part of this system of controls we recommend that an annual review of capital assets be conducted before the audit field work is scheduled to give staff the time necessary to finalize capital assets disclosures.

Client Response:

We agree annual reviews of potential capitalized assets, including major infrastructure (where condition index updates are needed periodically to correctly assess any life extension of the asset created by annual improvements) are essential. The City will implement processes that will ensure capital assets have been reviewed and all schedules are complete prior to audit field work is started.

City engineering will perform a current road conditions index over the next year. The process of evaluating and adding current year improvements to the asset records of the City was significantly improved during this second year of having asset additions and we believe it will continue to improve with continued coordination between City engineering and City finance.

The original transfer of Salt Lake County asset records (recorded by calendar years without annual depreciation) and the effort to convert them to fiscal years, estimating accumulated depreciation to establish a beginning net book value for the new City of Cottonwood Heights, resulted in a calculation error. During the recent effort to simplify the records and verify the annual depreciation that Cottonwood Heights had booked in prior years, city staff realized that the net book value transferred from Salt Lake County was understated by a half year of excess depreciation allocated. This did not effect what depreciation was booked by the City in prior years, only the beginning net book value transferred.

City staff then took additional initiative to verify that all roads and infrastructure were correctly represented in the asset records by comparing the transferred asset records provided by Salt Lake County to the current GIS record of City roads. Forty-three road segments were identified and added to the assets of the City. This required significant effort to identify comparable historical cost for each segment, calculate County accumulated depreciation and additionally calculated the City's depreciation for the past two and a half years missed. We feel confident that delays in completing annual asset additions and schedules will be significantly improved by completing this type of due diligence on establishing correctly the beginning balances and actual assets transferred from Salt Lake County.

State Compliance Findings – Current Year

Finding – Expenditures in Excess of Budget:

According to *Utah Code* section 10-6, a city shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. The community and Economic Development

department expenditures exceeded the amount budgeted by \$20,607.

Recommendation:

We recommend that expenditures by fund and department be monitored more closely to ensure that such expenditures remain within budgeted amounts.

Client Response:

We regularly monitor expenditures on a monthly basis. This overspend was due primarily to a error in calculating a final budget adjustment at year-end, overlooking final billings from contract providers. We agree to take additional measures to carefully compare the budget to expected expenditures to ensure that we are within budgeted amounts.

Internal Control Findings – Prior Year

Finding: Policies and Procedures Manual (control deficiency)

In May 2006, the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, which is effective for audits of financial statements for periods ending on or after December 15, 2006. The auditor must evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses. Control deficiencies identified during the audit that are considered significant deficiencies or material weaknesses must be communicated in writing to management and those charged with governance as part of each audit.

A starting point for identifying and evaluating controls, as well as possible vulnerabilities or areas for improvement, is a management review of existing policies and procedures. In light of new standards and regulations such as SAS No. 112, emphasizing internal control and the need for written, up-to-date policies and procedures is greater than ever. The need for well-defined roles, responsibilities and procedures is important to assuring the smooth transition of such change factors and to maintaining a strong internal control structure.

Recommendation:

We recommend the City review the existing policies and procedures and formalize accounting and processing standards. This would benefit management, staff, administration, and facilitate training, efficiency and strengthen internal controls over accounting systems and procedures.

Current Status:

The City is in the process of finalizing an employee policy and procedures manual. We are continuing to document standard processes and accounting policies as a continuous improvement towards quality accounting and financial reporting for the City.

Finding: Fraud Policy (control deficiency)

An effective method of communicating and reinforcing an antifraud culture within an organization is

through the development of a fraud policy. A fraud policy communicates to all employees the City's position and policy on matters such as the following:

- Risks that the organization faces from fraud, abuse, and other forms of misconduct
- Effect of the Code of Conduct
- Definitions of misconduct including fraud and abuse
- Employee's responsibility to report suspected misconduct (including an established reporting mechanism, such as the Mayor or Member of the City Council, a consultant or advisor, hotline service, etc.)
- Organizational responsibility to investigate
- Disciplinary action for violations

Recommendation:

The City currently has adopted the Human Resources Policies and Procedures Manual, but has not published and distributed them to City staff. We recommend that the City publish these policies and provide employee training emphasizing the code of conduct including fraud.

Current Status:

The city has included its policies regarding fraud in the Human Resources Policies and Procedures manual mentioned in the finding above. This inclusion was deemed to be sufficient for covering the prior year audit finding.

Finding: Processing of Journal Entries (control deficiency)

Professional standards have increasingly emphasized the need for auditors to evaluate and test their clients' controls over journal entries. However, after assessing the design of the City's internal controls over journal entries, we determined that we were unable to rely fully on controls in this area because of the control deficiencies described below.

- We noted that key accounting personnel have the ability to prepare and post certain closing and post-closing entries directly into the accounting system. The current software allows users to code and post journal entries prior to another's approval.
- As part of our journal entry sample, we noted that the majority of the journal entries selected did not receive hard copy approval. Although evidence of management approval of the journal entries was not present in some cases, our substantive review of those journal entries, and others, did not lead us to question the validity of the journal entry.

Recommendation:

Controls over journal entries ensure the validity, accuracy, and completeness and integrity of the underlying transactions and helps to prevent and detect errors and irregularities. Given the significance to appropriate financial reporting, we recommend that all journal entries be reviewed at least monthly by another individual.

Current Status:

Review and approval of journal entries is conducted regularly by someone outside of the initiation of journal entries.

Finding: Capital Assets (control deficiency)

Currently, fixed assets are analyzed and added to an excel spreadsheet at the end of the year.

Recommendation:

We recommend that a quarterly review of the fixed assets be completed along with an engineering estimate of the road condition and improvements. We also recommend that the City consider purchasing a capital asset accounting system to make operations more efficient. The quarterly review and purchase of a capital asset accounting system will strengthen procedures for recording capital assets and will increase the accuracy of financial reporting.

Current Status:

See current year findings.

Finding: Accounting Duties (control deficiency)

Currently, the City has one full time individual that performs or oversees most of the accounting functions along with other duties. We were unable to complete our audit during the month that we performed our field work due to a few items not being complete.

Recommendation:

We recommend that all necessary adjustments be made to the accounting records prior to the auditor's starting field work. We also recommend that the City hire another individual in the accounting department to help segregate duties further and facilitate a quicker close of the year end.

Current Status:

New part-time accounting staff was hired to facilitate segregation of duties. All necessary adjustments were completed prior to, or during, scheduled fieldwork, with the exception of capital asset adjustments.

State Compliance Findings – Prior Year

No state compliance issues noted in prior year.

This information is intended solely for the use of Cottonwood Heights and management of Cottonwood Heights and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Larson & Rosenberger, LLP

Certified Public Accountants